

State of Delaware

Office of the Governor



Reality Check:

Briefing on the Budget Challenges

January 2009

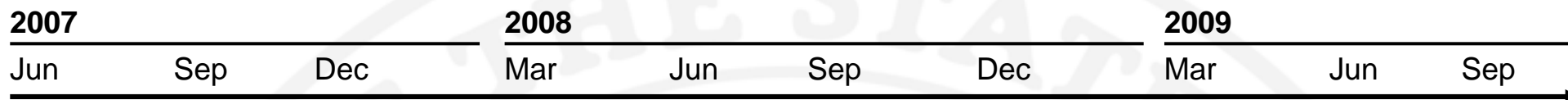


Questions for our discussion

- What caused these unprecedented financial and economic challenges?
- What does the downturn mean for Delaware now and in the future?
- What does a \$600M shortfall actually mean?
- What can we do to pull together and tackle this challenge?



The growth of a national economic crisis



Phase 1 Credit Crisis

Subprime mortgage and initial liquidity market disruptions



Phase 2 Financial Crisis

Banking solvency and systemic risk



Phase 3 Economic Crisis

Global equities and real economy spill over

Phase 4 Unemployment Crisis

Construction, Auto and Chemical



A national economy facing unprecedented challenges on many levels



Employment



- 2.6 million US jobs were lost in 2008 – the greatest annual loss of jobs since 1945 (2.75 million jobs were lost then)

Banks



- 25 bank failures in 2008, the most in 15 years
- Combined assets of lenders that failed in 2008 exceed the total of all those that collapsed in the preceding six years

Real estate



- US home prices dropped a record 18% in 2008
- Pace of existing home sales fell to their lowest level in 27 years

Markets



- Global stock markets lost about half of their value in 2008 – total loss of ~\$30.1 trillion dollars, U.S., loss of ~\$7.2 trillion

Deficit



- At ~6% of GDP, the 2008 national deficit stands at its highest level since World War II
- While the national debt of ~\$10 trillion has reached ~70% of GDP, its highest level in about 53 years

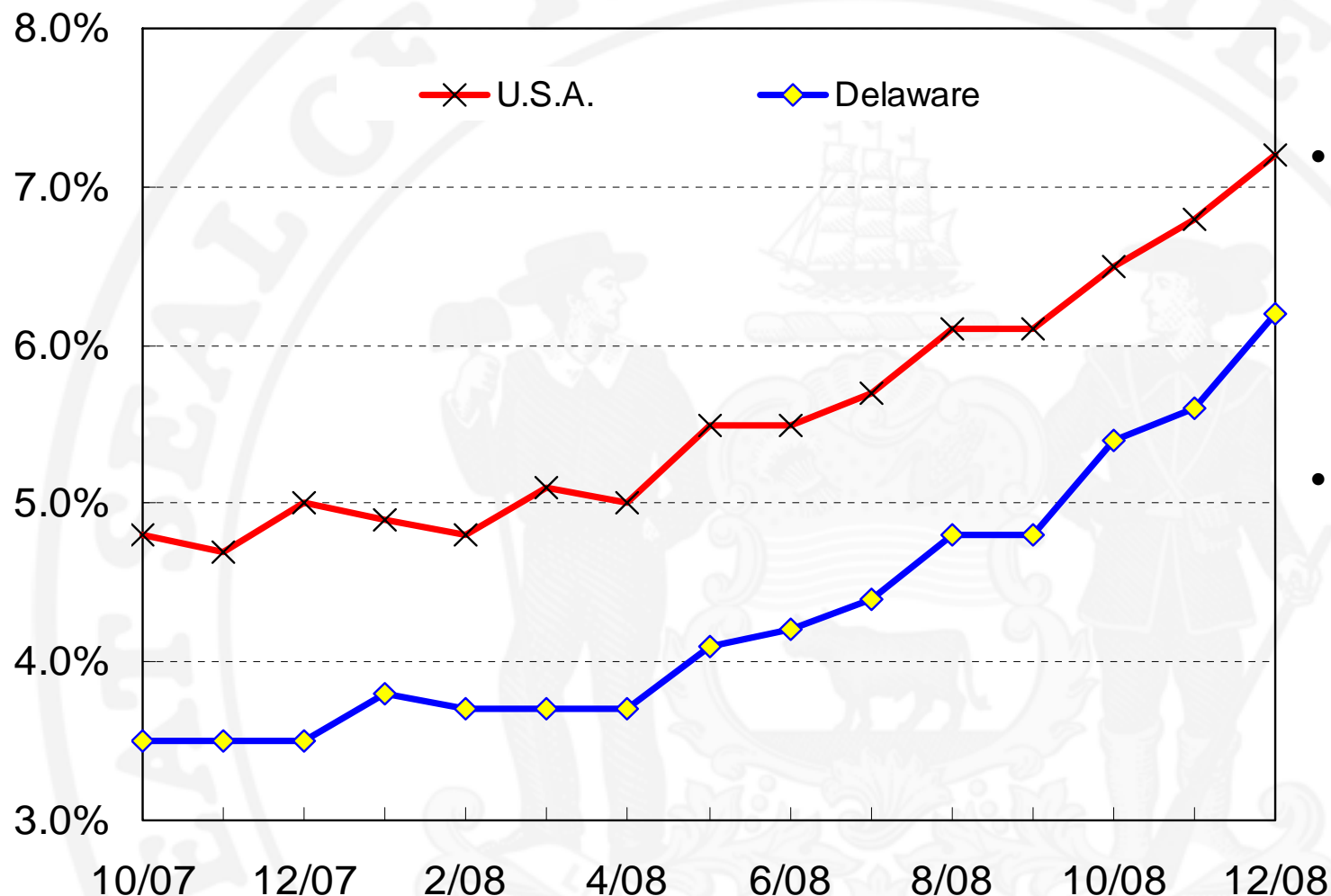
“We start 2009 in the midst of a Challenge unlike any we have seen in our lifetime”
– President Obama



Due to its economic structure, Delaware has been hit especially hard by national forces



Seasonally adjusted unemployment rate



- Although still lower than in the US's, **Delaware's unemployment rate has risen faster than the national rate**

- **27,665 unemployed Delawareans** in Dec. 08, an increase of 2,600 from Nov. and 16,800 from Dec. 07



Challenges dry up Delaware's revenue streams

Employment



- Two sectors hardest hit nationally are foundations of modern Delaware economy – manufacturing and finance.
- More Delawareans unemployed – 27,665 - than at any point in history.
- December unemployment rate of 6.2% is the highest in 25 years.
- Percentage does not include new layoffs
- Job growth lags national average

Real estate



- In New Castle County, the number of homes sold was down 30 percent from 2007, and the average selling price was 2.5 percent lower
- Home foreclosures up 150%

Income



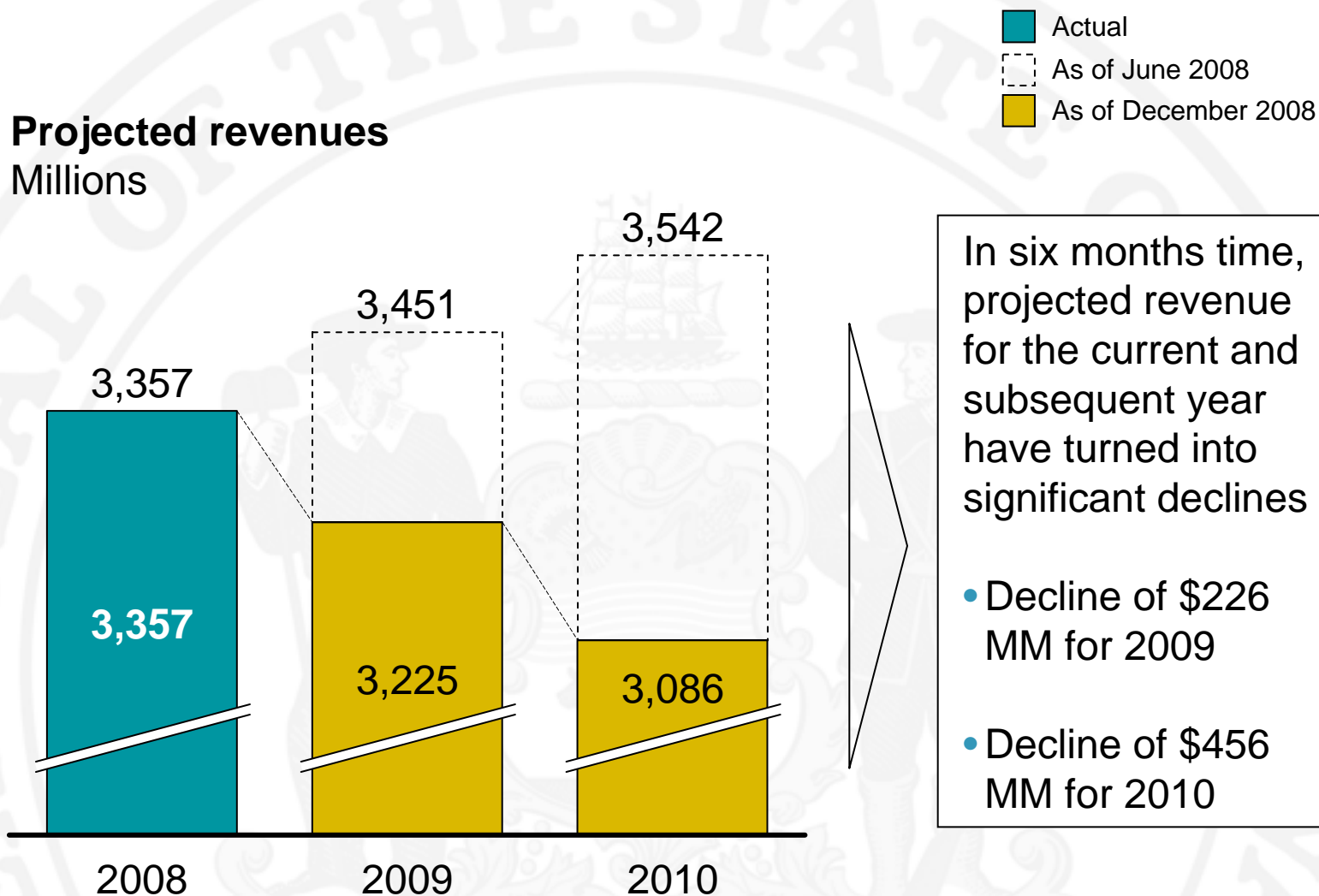
- Retail slowdown brings fewer shoppers across state lines
- Corporate losses reduce Delaware revenue
- Capital gains and interest income slashed by national stock market plunge

“We face the largest budget shortfall in state history. Dramatically larger than anything we have ever faced in our lifetimes.”
- Governor Markell



Delaware's projected revenues declined rapidly...

Projected revenues
Millions

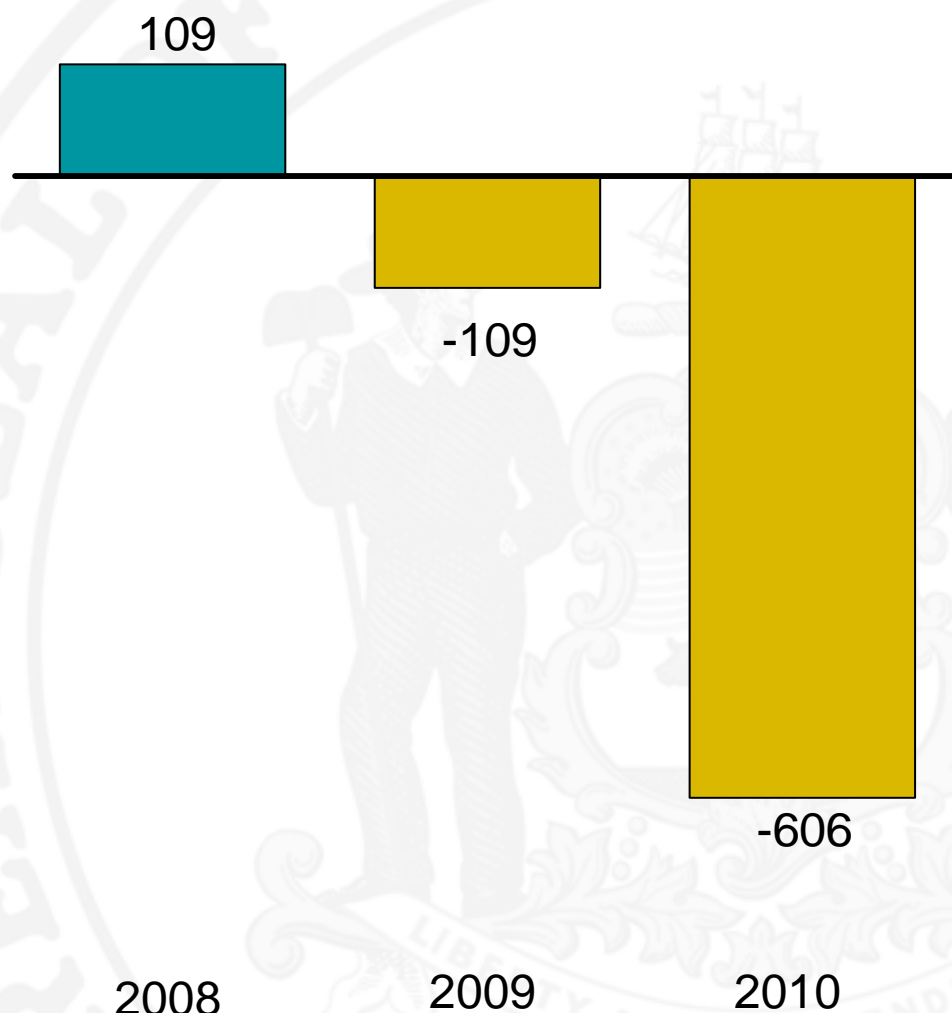




...Leading to a significant budget gap of 15-20%

Budget surplus and deficit
Millions





■ Ending Cash Balance
■ Projected Deficit



- Delaware budget was in balance in 2008
- Deficits expected to reach ~15-20% of total revenues by 2010

Across the region, our neighbors have had to take significant steps to deal with smaller deficits



State	Shortfall Percent	Actions taken and/or Proposed
 MD	12.5	<ul style="list-style-type: none"> • Eliminate more than 1,000 positions including 700 layoffs • Use general obligation bonds to pay for projects for which previous plans had allocated general funds • Level-fund a number of categories of local aid instead of allowing them to grow • Use a \$366 million reserve account in the comptroller's office that was created to ensure money would be available for local tax refunds • Use \$255 million from the state's Rainy Day Fund
 VA	16.7	<ul style="list-style-type: none"> • Cut annual support payments to caregivers of the needy who work free of charge • Eliminate 1,500 jobs • Early release over 1,000 inmates
 PA	8.1	<ul style="list-style-type: none"> • Eliminate some state programs, slash spending for other programs, and layoffs. (amount to be determined) • Ask legislature to contribute \$175 million of their \$200 million surplus • Considering tax increases (other than sales and income)
 NJ	15.3	<ul style="list-style-type: none"> • Freezing salary increases for state managers and unionized employees • Freezing pay raises for all State employees • Cut spending across state agencies • Use \$275 million of state's surplus • Use \$500 million of Long Term Debt Reduction Fund • Use \$208 million of increased closing surplus

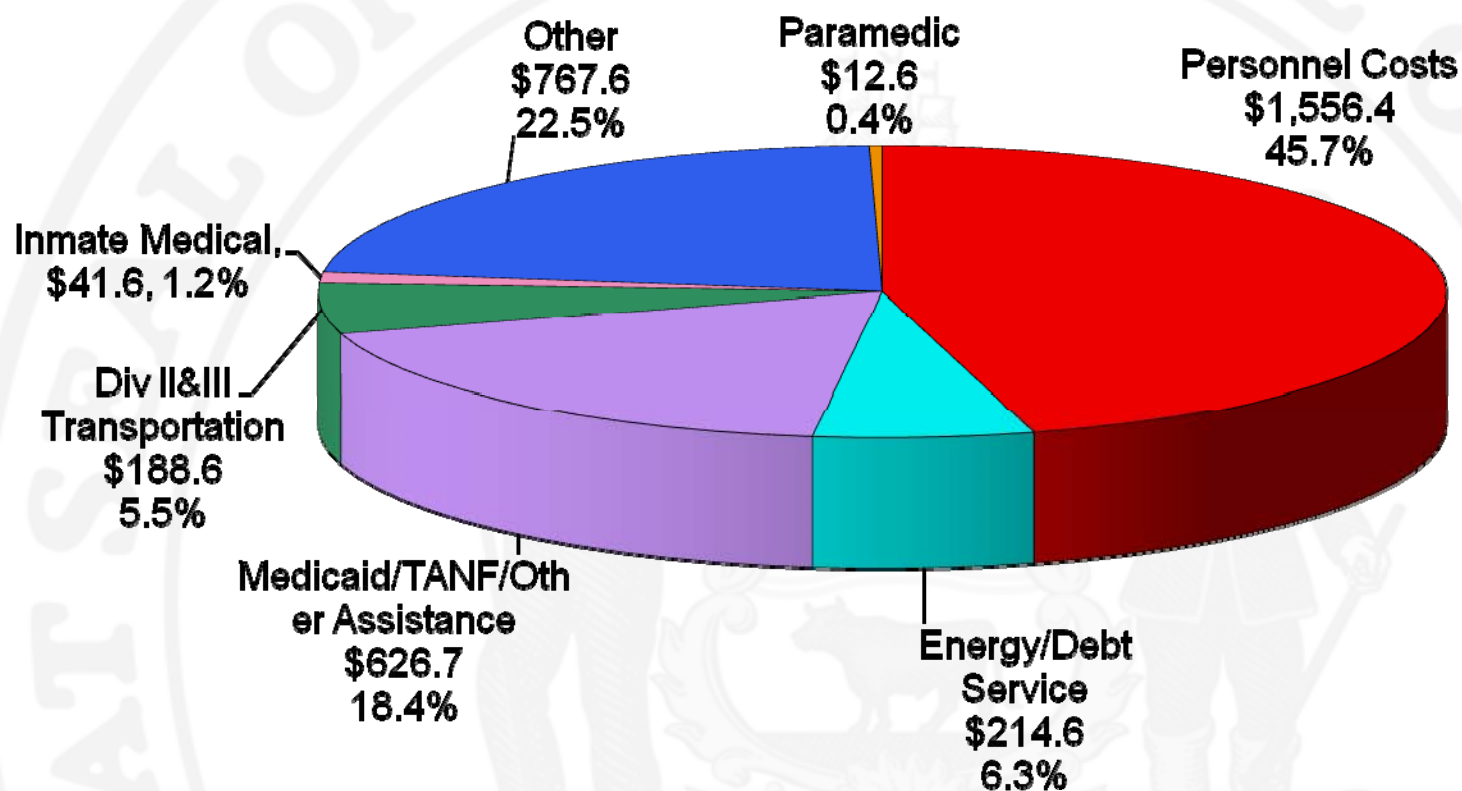


States across the nation cut key services

	State	Selected examples
Elderly and disabled	OH	• Shut down two mental-health hospitals
	AL	• Ended homemakers services for 1,200 vulnerable disabled and elderly adults
Healthcare for the poor	SC	• Cut treatment for low-income women under 40 with breast and cervical cancer and stopped nutritional supplements for people with kidney failure
	NV	• Largest public hospital stopped providing outpatient oncology services
	VT	• Eliminated subsidies for HPV vaccinations
Corrections	KY	• Early release of 2,000 inmates
	NY	• Early release of 1,600 inmates
	CA	• Eliminate supervision for offenders not convicted of violent or sex-related crimes, reduce the probation population by about 70,000. Divert criminals to county jails and grant early release to more inmates – all steps to reduce prison population by approximately 15,000
	MI	• Reviewing sentencing and parole modifications



Where does Delaware's budget go?



“Other” includes higher education funding, operating costs for prisons, juvenile justice facilities, state hospitals, state parks, veteran's home, etc

What makes up \$600 million?

FOR EXAMPLE ONLY – Not Proposed

Example 1



- Eliminate funding for the Departments of Technology and Information, State, Finance, Services for Children, Youth and Their Families, DNREC, Safety and Homeland Security, Agriculture, Elections, Fire, and National Guard plus portions of the Department of Correction (Sussex Correctional Institution, Baylor Correctional Institution, James T. Vaughn Correctional Center, Community Corrections, Inmate Medical services and Substance Abuse Treatment)

and...



- Shut down the Veteran's Home

and...



- Close all State Parks

and...



- Eliminate mental and behavioral health services to children including juvenile justice facilities

... combined equals ~\$600 MM

What makes up \$600 Million? (continued)

Example 2



- Eliminate the entire Medicaid program, Delaware Healthy Children Program, Child Care, and closing the Stockley Center, plus no longer provide services for those with Developmental Disabilities

or

Example 3



- Eliminate nearly all of public education teacher and support staff salary funding affecting over 120,000 students

or

Example 4



- Reduce state agency personnel costs by almost 75%



Tackling the Tough Decisions

Every effort will be made to find efficiencies, eliminate waste, and ensure that the citizens of Delaware are receiving the best value for their tax payer dollars. But that will not be enough. Difficult decisions demand shared sacrifice across the state.

- Failure to make these hard decisions, failure to examine with honest eyes every aspect of state government carries an unbearable cost. The price of a \$600M deficit spread across every household in Delaware is well over \$2000 a home.
- Government can no longer pretend that it has all the answers. It has to be willing to ask the tough questions and, more importantly, be willing to hear the hard truth of honest answers and bear the cost of shared sacrifice.
- We will need to take stock of what our state government truly needs to provide in order to ensure the health and prosperity of our families, children and neighbors.



Growing Delaware's Economy

- **Renew** focus on entrepreneurship
- **Attract** seed capital to grow new business
- **Eliminate** government obstacles to responsible growth
- **Replace** the "Battle of the Big Check" with support for Delaware companies
- **Lead** Delaware to the forefront of the Ecology Economy

In Closing



- **Challenge** – We are in a time of great challenges. There are no quick economic solutions
- **Sacrifice** – We are all being asked to sacrifice. The demand for core services will increase
- **Choices** – We have difficult decisions ahead. We need your input and ideas
- **Confidence** – We will be stronger in the long run with positive solutions for the future